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30 July 1986

NOTE FOR: DDCI

FROM: ADDS&T

SUBJECT: Economic Policy Council Meeting, 30 July 1986

Bob,

- The EPC staff put together options covering 11 recommendations for commercializing ELVs. The major issue is how to withdraw NASA from the commercial satellite launch business. Three options were offered:

  (a) Termination of services, which immediately and almost unequivocally got NASA out.

  (b) Deferred services in which NASA was precluded from commercial satellite launching for four years after which they could resume but only to work off their current (1986) backlog, provided their customers so desired.

  (c) Phase out in which NASA gets out of the business with a lot of fuzzy edges.

- Side issues: NASA has contracts for 44 launches at $40M each. Justice felt the contracts could be abrogated without much litigation (total USG risk ~$400M).

- Secretary Dole made the case that U.S. industry will not invest in commercial ELVs unless they have crisp clean assurance they will not have to compete with NASA. She was in favor of option (a), so were Energy, Commerce, CEA, OMB, and DoD (by memo). Treasury was "neutral" and NASA favored commercialization in principle and preferred option (c).

- Other major points:

  -- NASA must maintain some ELV capability for USG scientific and technical satellite launches. Acting OSTP felt NASA should also be in ELV R&D business as well.

  -- Most council members believed some form of subsidy would probably be needed in the future. However, industry told Secretary

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Dole they didn't need it and, since it has not been implied in previous policy statements, Secretary Baker ruled subsidies not be explicitly included in new policy statement.

-- A consensus developed for more explicit definition of "shuttle-dependent" payloads, once again to more clearly signal U.S. industry.

• Secretary Baker thinks the President will decide on policy statement for commercial ELVs 5 or 7 August.

25X1

James V. Hirsch

ROUTING SLIP

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI				
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8	DDS&T		X		
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
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15	D/PERS				
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17	NIO/ECON		X		
18	C/S				
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	SUSPENSE		Date		

Remarks

Chaired by Baker.

Executive Secretary

29 July 1986

Date

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THE WHITE HOUSE
WASHINGTON

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CABINET AFFAIRS STAFFING MEMORANDUM

Date: 7/29/86 **Number:** 317,163 **Due By:** ---------

Subject: Economic Policy Council Meeting - July 30

11:00 A.M. Roosevelt Room

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☑	☐
Justice	☑	☐
Interior	☐	☐
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☐
HUD	☐	☐
Transportation	☐	☐
Energy	☑	☐
Education	☐	☐
Chief of Staff	☑	☐
OMB	☑	☐
CIA	☐	☐
UN	☐	☐
USTR	☑	☐
EPA	☐	☐
GSA	☐	☐
NASA	☑	☐
OPM	☐	☐
SBA	☐	☐
VA	☐	☐

	Action	FYI
CEA	☑	☐
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Executive Secretary for:		
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COM

REMARKS:

The Economic Policy Council will meet on Wednesday, July 30, 1986 at 11:00 A.M. in the Roosevelt Room.

The agenda and a background paper are attached for your review.

RETURN TO:

☑ **Alfred H. Kingon**
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ **Don Clarey**
☐ **Rick Davis**
☐ **Ed Stucky**

Associate Director
Office of Cabinet Affairs
456-2800 (Room 235, OEOB)

THE WHITE HOUSE

WASHINGTON

July 29, 1986

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. MCALLISTER EM

SUBJECT: Agenda and Paper for the July 30 Meeting

The agenda and paper for the July 30 meeting of the Economic Policy Council are attached. The meeting is scheduled for 11:00 a.m. in the Roosevelt Room.

The first agenda item will be an update from Ambassador Yeutter on the progress of the negotiations with the Japanese on the semiconductor cases. No paper will be distributed.

The second agenda item will be a report from the Working Group on Space Commercialization. The Working Group has developed a series of options and recommendations for encouraging the development of a private U.S. expendible launch vehicle industry. A paper prepared by the Working Group is attached.

CONFIDENTIAL ATTACHMENT

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

July 30, 1986

11:00 a.m.

Roosevelt Room

AGENDA

1. U.S. - Japanese Semiconductor Negotiations
2. Report of the Working Group on Space Commercialization

Sanitized Copy Approved for Release 2010/12/22 : CIA-RDP88G01117R000702250002-3

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: COMMERCIAL SPACE WORKING GROUP

SUBJECT: TRANSITION PLAN TO ENCOURAGE COMMERCIAL ELVs

I. INTRODUCTION

The Space Shuttle Challenger accident on January 28, 1986, seriously disrupted the nation's space launch capability. The U.S. will not be able to launch any payloads on the Space Transportation System (STS) until the first quarter of 1988. While the STS is unavailable, the backlog of flights that were previously planned for launch on the Shuttle continues to grow. The Administration policy since 1983 has encouraged an unmanned, private expendable launch vehicle (ELV) industry.

The interruption of our national launching capability provides a unique opportunity to implement the President's policy of encouraging private sector launch services while helping meet our space launch recovery needs. The question before the Council is what actions should be taken now to encourage the development of the U.S. ELV industry.

II. BACKGROUND

- In July 1982, President Reagan announced the National Space Policy which called for the STS to be the United States government's primary means of access to space. ELVs were to be used until the STS could satisfy the government's needs and obligations. At the same time, it was recognized that national security considerations may require special launch capabilities.

- After several months of government deliberations, a Presidential directive, "Commercialization of Expendable Launch Vehicles," was announced in May, 1983. It stated that "the U.S. Government fully endorses and will facilitate commercial operations of ELVs by the U.S. private sector" and that "the U.S. governement will not subsidize the commercialization of ELVs." The Administration's commitment to this goal was embodied in the February 1984 Executive Order appointing the Department of Transportation (DOT) as the lead agency for encouraging

ELV commercialization. In October 1984, the President signed into law the Commercial Space Launch Act, which provided DOT with substantive authority to expedite the licensing process for U.S. ELVs and to regulate the domestic ELV industry once it has developed.

- o With the Challenger accident, the United States government temporarily lost its primary launch capability. NASA does not anticipate any Shuttle launches before 1988. Priority for Shuttle launches is accorded, in order, to national security, civil/scientific, and foreign and commercial payloads. The Shuttle's backlog will last until 1992.

- o U.S. ELV manufacturers state that they are willing and able to enter the market, but are reluctant to make the necessary investment decisions until a clear and concise policy is stated assuring them that they will not be in direct competition with the U.S. government in the commercial launch market.

III. QUESTIONS PRESENTED

1. Does the potential exist for a viable U.S. ELV industry?

2. Could a private sector, U.S. ELV industry compete in the global market against subsidized foreign providers?

3. What the U.S. ELV industry is seeking in the form of government assistance?

4. What effect would the decision to purchase a privately funded fourth orbiter have on an emerging U.S. ELV industry?

IV. DISCUSSION

1. Potential for a Viable U.S. ELV Industry

In order for the U.S. ELV industry to develop, there must be a demand for ELV launch services and a reliable source of supply. There are presently no ELVs available for commercial launches either from NASA or in the private sector.

-- Representatives of the ELV industry state that they are willing and able to enter the commercial launch market once the government provides assurances that it will no longer compete nor market for commercial launch services.

-- The industry estimates that it would take 30 to 36 months from this assurance to begin launches. However, the industry could begin marketing launch services immediately.

-- Communications satellite industry representatives present diverse views, ranging from preference for a mixed STS/ELV fleet to exclusive reliance on ELVs.

-- All sectors of the industry stressed the need for an immediate, clear and concise statement of U.S. space launch policy.

-- Recent DOD contracts to procure Titan CELVs for the military market, combined with the current DOD request for a Medium Launch Vehicle, will give certain ELV firms an adequate production base to achieve the necessary efficiencies to be competitive.

2. Viability of U.S. ELV Industry in the Global Market

Although it is impossible to predict the future, there are numerous indications that the U.S. ELV industry has a reasonable chance of achieving a competitive share of the global launch services market.

-- The commercial launch services market is limited. There are few players, and most of them receive government subsidies. Future subsidy practices of other governments cannot be predicted. However, it is clear that a market does exist. The number of contractual commitments and earnest money deposits (83) that NASA has been able to conclude are evidence of a strong demand in this multi-billion dollar market for launch services. Also, the Working Group recommendation for consultations with foreign launch providers could help mitigate the problem of foreign subsidies.

-- The 1985 Presidential determination on the USTR Section 301 complaint against Arianespace by Transpace Carriers, Inc., suggested future international talks on trade practices for commercial launch services. The President of Arianespace has invited the United States to engage in "rules of the road" consultations regarding global competition in launch services. President Mitterand of France, speaking in New York on July 4th, 1986, underscored Europe's interest in pursuing such talks.

-- European Space Agency (ESA) and Arianespace have stressed their interest in avoiding a "subsidy war" with the United States.

-- Europe has a number of spacecraft projects, including the European Space Station and the European Space Shuttle (Hermes) all competing for limited funds.

-- Because of these constraints, Arianespace has indicated that it does not desire to significantly expand its current market share.

-- Arianespace is concerned that underpriced services from a U.S. government-sponsored competitor would increase pressure to launch in order to maintain market share, increasing the risk of catastrophic failure. Arianespace's current success rate is only 77% and they fear that any further reduction in that rate will have an adverse effect on their ability to attract business.

3. What the Industry Seeks:

The U.S. ELV industry has identified several types of actions which government could provide to encourage the development of this industry. However, the communications satellite industry and the upper-stage manufacturers are wary of overly favorable treatment of the ELV industry. Their concerns stem, in part, from large investments made in reliance on previous U.S. policy that the STS would be the primary means of access to space. Their transition to a mixed fleet, or primary reliance on ELVs, may require some expensive adjustments. In addition, the communications satellite industry is concerned that adequate numbers of ELVs will not be available within a reasonable period of time, and that they will be forced to seek launch services from foreign providers. At least one upper-stage manufacturer is in a somewhat better position because one of its products has military application.

The ELV industry has identified the following types of assistance which would aid the development of this industry:

o Issue a clear and concise policy statement barring NASA from providing launch services for foreign and commercial payloads, effective immediately.

-- Ensure industry involvement through technical advice in implementing this policy.

- o Expedite completion of the transfer of marketing rights to Delta and Atlas ELVs to the private sector.

- o Provide reasonable assurances of access to government-owned launch facilities at a fair price.

- o Work with the private sector to develop a solution to the insurance problem, including consideration of a federally-guaranteed insurance program for space launches.

- o Encourage procurement practices and policies which seek to foster commercially competitive launch services.

- o Pursue bilateral or multilateral consultations on commercial launch services with foreign governments.

- o Guarantee the procurement by Government departments and agencies of a certain number of ELVs in order to provide a base for commercial production.

- o Set the priority for future STS launches to outstanding commitments for national security, military, civil/scientific, and foreign and commercial missions which are shuttle-dependent.

4. Effect of Decision to Purchase a Privately-Funded Fourth Orbiter

In the wake of the Challenger accident, several expressions by the private sector have been made to finance a replacement Shuttle. A draft Request for Proposals (RFP) for private funding of an orbiter is being prepared using the same process and envisioning the same terms and conditions as agreements for ELVs. This has been deemed as essential in view of the competitive protential. In evaluating private sector proposals to fund a replacement Shuttle, the following policy criteria should be met:

- -- Will the replacement orbiter be privately funded, owned and operated with the same pricing policy and access to launch facilities as private sector U.S. ELVs? If so, such a purchase should be encouraged.

- -- However, if the government has a role in the funding, ownership or operation of the replacement orbiter, government would be in direct competition

with the U.S. ELV industry. Such a relationship would seriously frustrate the national policy of encouraging the U.S. ELV industry. This purchase should not be made.

V. RECOMMENDATIONS

Need more clarity re "Shuttle unique" payloads. Might go through STS Backlog and ID those that are unique and those that are not, if possible.

The Working Group recommends that the Administration adopt the following policies:

1. Actions for Commercializing ELVs

Option A: Termination of Services

NASA shall no longer provide launch services for foreign and commercial payloads.

-- Contracts for the launch of foreign and commercial payloads entered into by NASA on behalf of the U.S. Government should be terminated in the national interest immediately by Executive Order. Exceptions may be made where special circumstance exist.

-- DOJ in conjunction with NASA and OMB, will review any agreement affected by this order where parties to the agreement request reconsideration due to special circumstances.

-- Exceptions to this policy shall be determined in coordination with a Technical Advisory Committee and may include such circumstances as Shuttle dependent design characteristics.

Option A would immediately remove NASA from the business of commercial launch services. It would terminate NASA's existing contractual commitments. It would allow for exceptions to this policy for special circumstances such as Shuttle-dependent payloads.

Option B: Deferred Services

NASA shall accept no new orders and enter into no new contracts for foreign and commercial payloads. As in alternative A, existing contractual commitments shall be terminated in the national interest by Executive Order. However, NASA may renew its prior commitments, subject to the following conditions:

-- Due to STS priorities and Administration policy encouraging the U.S. ELV industry, no launches of foreign or commercial payloads shall be scheduled on the STS until four years after the date upon which the STS resumes normal operations.

-- Current NASA customers may unilaterally terminate their contractual commitments and seek other launch services at no penalty.

-- Customers who wish to remain on the STS manifest by renewing their contracts will be charged a price comparable to the price that the customer would be charged for launch of a comparable payload on a commercial ELV at or near the time its STS payload is actually launched.

-- NASA and DOT shall assist any customer in finding an appropriate U.S. ELV service provider, upon request.

Options A and B would remove NASA from the business of commercial launch services. However, under Option B, after a four year period, NASA's remaining customer base could be launched on the STS. During this period, NASA would encourage all of its existing customers to transfer to U.S. ELVs. Options A and B differ from Option C in that they prohibit the STS from providing launch services during the period in which a U.S. ELV industry is developing.

Option C: Phase Out

Government launch systems will not compete with a viable and competitive U.S. private sector launch services industry.

-- The U.S. Government will enter into no new contracts to provide commercial launch services, except for commercial payloads that can be launched only by the Shuttle or as directed by statute.

-- U.S. Government will not preclude the use of government-owned capabilities to provide launch services to:

  -- NASA and other agencies of the U.S. Government,

  -- agencies of foreign governments, when compelling U.S. national interest is established.

-- NASA will release its existing customers under contract without penalty and will cooperate with commercial satellite launch service customers to expedite their transfer of payloads to U.S. commercial launch services.

-- Should those commercial organizations now holding contracts with the U.S. Government for launch services wait sufficiently long to obtain the contractual services from NASA, those contracts will be honored, except that national priorities for use of the Shuttle will be observed and substantial delays will necessarily be incurred. Honoring existing contracts will include specific recognition that all existing contracts become null and void in either 1994 or 1995, and contracts not fulfilled by those times will not be extended or renewed.

-- Shuttle-unique and Shuttle/foreign carrier unique payloads will be given priority for launch services on the Shuttle over other commercial payloads.

Option C does not require the termination of existing U.S. Government commitments as required in both Options A and B. It does immediately remove NASA from competition for the launching of commercial satellites, prospectively. It offers to release existing customers without penalty. NASA will assist these customers in finding alternative domestic launch service providers. It permits the government to fulfill its contractual obligations to those users who chose to wait for the extended period required for launch.

2. NASA will not Maintain an ELV Adjunct

NASA will not maintain an ELV adjunct. NASA may procure from the private sector on a mission by mission basis commercial ELVs for government launches.

NASA will remain as the U.S. Government agency responsible for all government (non-DOD) payloads including those commercial and foreign payloads that may be launched as exceptions to the policy.

3. Privately Funded Fourth (Replacement) Orbiter

A. The U.S. Government should not have a role in the funding, ownership or operation of a privately-funded fourth (replacement) orbiter; or in the alternative,

B. U.S. Government involvement in the funding, ownership and operation of commercial Shuttle orbiters shall be conducted on the same basis as U.S. Government involvement in the funding, ownership and operation of commercial ELVs.

4. Privatization of Government Developed Systems

NASA and DOD shall proceed to take the necessary steps to provide to the private sector the opportunity to privately construct the following government developed systems to meet commercial launching requirements: Scout, Delta, Atlas/Centaur, Titan and Shuttle orbiters. DOT shall have the opportunity to propose and review these types of arrangements.

5. Access to Launch Facilities

NASA and DOD shall issue regulations ensuring private use of and access to Government launch facilities for commercial launch services. DOT shall have the opportunity to propose and review such regulations. All government cost recovery for its facilities and other support of commercial launch activities shall be made by uniform means, as directed in existing statute and regulation.

6. Insurance

Government shall not become an insurer for commercial launch services. (Government facilities and capabilities placed at risk by commercial launch firms will be insured by those commercial firms.)

7. Government Procurement Practices and Policies

U.S. Government departments and agencies shall review their procurement practices and regulations and ensure that nothing shall preclude them from contracting directly, where appropriate, with private launch services providers.

8. International Agreements

USTR, in consultation with DOT, DOC, NASA, and State, shall initiate consultations with foreign providers of commercial launch services after final discussions on U.S. government policy in this area have been held. The purpose of the consultations is to review the trade-related aspects of government's policies toward launch services, with a view to determining if negotiating international rules in this area would best serve the United States' interests. If so, USTR, in coordination with the agencies listed above, will pursue such negotiations.

9. Technical Advisory Committee

A Technical Advisory Committee cochaired by NASA and DOT shall be established to advise the U.S. Government in the implementation of this transition plan. Members of

the commercial launch services industry and satellite manufacturers shall be represented, and shall be consulted with respect to questions involving technical matters relating to private sector activities. DOD, DOC, State, Justice and OMB also will be represented on the Committee.

10. Exceptions To This Policy:

Some payloads may be Shuttle-dependent and cannot be launched on ELVs. The Technical Advisory Committee shall recommend criteria for determining whether a payload is Shuttle-dependent.

From time-to-time, it may be desirable to launch foreign and commercial payloads on the STS or government-owned ELVs for reasons of foreign policy or in the national interest. Exceptions shall be granted only for compelling reasons. The National Security Council shall approve or disapprove all requests for such exceptions.

11. The Economic Policy Council Periodic Review

After one year, and at successive yearly intervals, the Economic Policy Council (Commercial Space Working Group) shall review the policies of the transition plan and its implementation to determine the level of success in accomplishing overall U.S. Government objectives. The Economic Policy Council shall determine what, if any, additional remedial measures may be required.